Council of the European Union

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To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2016 national reform programme of the Czech Republic and delivering a Council opinion on the 2016 convergence programme of the Czech Republic

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2016) 324 final.

COUNCIL RECOMMENDATION

of …

on the 2016 National Reform Programme of the Czech Republic

and delivering a Council opinion on the 2016 Convergence Programme of the Czech Republic

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

[1] OJ L 209, 2.8.1997, p. 1.

Whereas:

(1) On 26 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[2], the Commission adopted the Alert Mechanism Report, in which it did not identify Czech Republic as one of the Member States for which an in-depth review would be carried out.

(2) The 2016 country report for the Czech Republic was published on 26 February 2016. It assessed the Czech Republic's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and the Czech Republic's progress towards its national Europe 2020 targets.

(3) On 11 May 2016, the Czech Republic submitted its 2016 Convergence Programme and on 12 May it submitted its 2016 National Reform Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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[2] Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[3], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance.

(5) The Czech Republic is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Convergence Programme, the Government plans a slight deterioration in the headline balance to -0,6 % of GDP in 2016 and a broad stabilisation at -0,5 % of GDP as of 2017. The medium-term budgetary objective — a structural deficit of 1 % of GDP — continues to be met over the programme horizon. According to the Convergence Programme, the government debt-to-GDP ratio is expected to remain at 41,1 % in 2016 and to fall to 39,3 % in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible. The measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, the structural balance is forecast to be at -0,7 % in 2016 and -0,9 % of GDP in 2017, above the medium-term budgetary objective. Possible future deviations would be assessed against the requirement to maintain the structural balance at the medium-term budgetary objective. Based on its assessment of the Convergence Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that the Czech Republic is expected to comply with the provisions of the Stability and Growth Pact.

[3] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

(6) In the long term, there are medium fiscal sustainability risks for the Czech Republic. These are derived primarily from the projected impact of age-related public spending, mainly in healthcare but also in pensions. Recently adopted or planned measures to amend the pension system would, if implemented, lead to a deterioration of public finances in the long term. First, in February 2016, the Government adopted legislation giving it the power to adjust the pension indexation mechanism more flexibly. Second, proposals are under discussion to cap the statutory retirement age at 65 and establish a regular review mechanism for the pensionable age. There are currently no plans to increase the low statutory retirement age. On healthcare, the projected increase in long-term spending is also a matter of concern. The Czech Republic faces challenges in improving the governance and cost-effectiveness of its healthcare system, although a number of measures are currently at various stages of implementation. Indicators point to a high consumption of goods and services and to a comparatively high reliance on hospital-based care, which is more expensive than outpatient services. Available medical data do not appear to be used effectively for the planning and rationalisation of inpatient care capacities. The reimbursement system for hospital care is being reviewed due to various drawbacks, such as the small sample of hospitals used to calculate the reference rates. Options for strengthening outpatient care coordination, improving the gate-keeping role of practitioners and limiting unnecessary consumption of outpatient services have still not been sufficiently explored.

(7) The Czech Republic's fiscal framework ranks among the weakest in the Union. A reform package addressing the main shortcomings in this area was approved by the Government in February 2015 but is still awaiting ratification by the parliament. The package aims to transpose Council Directive 2011/85/EU[4] into national legislation. The proposed reform envisages strengthening expenditure limits and directly linking them to the medium-term budgetary objective. Under the reform, the Government would be required to adopt a budget that safeguards the long-term sustainability of public finances and an independent fiscal council would be set up to monitor public finances and increase transparency.

[4] Council Directive 2011/85/EU of 8 November 2011 on budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41).

(8) Investment in the Czech Republic remains below the EU average in per capita terms and is highly concentrated in the capital region. Administrative and regulatory barriers continue to weigh on the efficiency of the business environment and act as a barrier to investment. There are specific bottlenecks in the implementation of transport and energy infrastructure projects. Furthermore, absorption of EU funds during the 2007-2013 programming period was slow, mainly due to complex procedures, deficiencies in management and control systems, inefficiencies in public procurement procedures and the weak administrative capacity of the bodies involved in project implementation. On transport infrastructure, administrative barriers to investment include lengthy procedures for issuing land-use permits and delays resulting from complaint procedures at the anti-monopoly office. On energy efficiency, public programmes to reduce energy intensity have been fragmented and cost-inefficient. There are indications that energy savings are not improving in line with the national energy efficiency action plan. On services, there is some evidence of regulatory restrictiveness. This is the case in particular for some of the individual professional service sectors, for which barriers to entry and practice appear higher than the EU average. The low use of quality online public services also impedes the business environment and reflects deficiencies of supply. E-government services do not take full advantage of technological possibilities to improve the user experience and their level of sophistication is among the lowest in the Union. Available evidence points to a relatively high incidence of tax evasion in the Czech Republic. Tackling this problem, particularly for VAT, is high on the policy agenda. On the other hand, no measures are planned to reduce the relatively high costs associated with paying taxes or to simplify the tax system. Pre-filing services offered by the tax authorities are limited. Taxpayers make limited use of systems to e-file tax returns, although some progress has been made on VAT. Additionally, the costs of tax collection are relatively high, according to the most recent international reports. High employer social contributions contribute to an overall high level of taxation on labour, and diversification into other areas, such as property taxes, is limited.

(9) A number of indicators point to significant weaknesses in public administration. Some progress has been made in adopting the legislative and non-legislative measures in the 2015 anti-corruption plan. The Contract Register Act was approved by the parliament in November 2015. Its timely implementation and further development would improve the transparency and cost-effectiveness of public tenders. However, some of the key anti-corruption acts, such as an amendment to the Act on conflict of interest and a new Act on the financing of political parties, are still outstanding. Several adopted measures are difficult to enforce and have limited impact, while a number of planned measures are repeatedly rolled over to the next action plan. Despite some efforts to address its shortcomings, there is scope for further progress in the performance of the Czech public procurement system with regard to competition and thus value for money. This is partly due to a lack of appropriate training of procurement practitioners and insufficient emphasis on quality criteria when awarding contracts. The public sector relies heavily on non-competitive procedures, with limited ability to attract bidders, while aggregated procurement is seldom used. Nevertheless, the implementation of the newly transposed public procurement directives on modernised public procurement procedures is expected to be an opportunity to introduce a strategic and evidence-based approach to public procurement policy, in terms of professionalisation, aggregation of public purchases, increased focus on quality criteria and the integrity of procurement practitioners.

(10) There has been a significant increase in R&D investment in recent years but outcomes remain weak and there are concerns about the sustainability of R&D infrastructure. The Czech research system is currently in the process of implementing long-delayed but substantial governance reforms, particularly on evaluation and funding. The existing funding mechanism is fragmented, with insufficient coordination between relevant bodies and an unclear division of responsibilities and priorities. A comprehensive evaluation framework for R&D, with links to funding, is being developed but progress is slow. There have been limited efforts to increase links between academia and the business community. These links are weakened by an evaluation framework for public research institutions that does not take into account the level of cooperation with enterprises.

(11) The higher education reform was adopted by the parliament in January 2016. The attractiveness of the teaching profession remains a challenge, with relatively low pay being seen as one of the causes, while at the same time the teacher population is ageing. A new career system for teachers and pedagogical staff is being developed to increase the attractiveness of the profession, but its implementation has been postponed. Educational outcomes are generally good, but they are strongly influenced by students’ socioeconomic backgrounds. The low educational outcomes of disadvantaged groups, in particular the Roma community, are a clear concern. It is estimated that a very large proportion of Roma children leave school early. Numerous Roma children receive education outside mainstream schools and as a result face lower learning standards than children from the rest of the population. Training opportunities for teachers to help them deal with this issue are underdeveloped, with a low proportion of teachers taking part in professional development activities related to teaching mixed groups and inclusive education. A significant number of legislative and administrative measures towards inclusive education have been taken and are beginning to be implemented. These are expected to contribute to reducing the gap in educational attainment and achievement between Roma and non-Roma children. The parliament adopted amendments to the Education Act in March 2016, extending compulsory education to the last year of pre-school education and ensuring that younger children are entitled to a place in a kindergarten. Nevertheless, inequalities in the education system represent a barrier to improving the quality of human capital and also hamper labour market outcomes later in life.

(12) The labour market situation in the Czech Republic has improved but further increases in the employment rate will depend on greater participation by under-represented groups. These include women with young children, low-skilled workers and members of the Roma community. The outreach capacities of public employment services, together with appropriate and well-targeted active labour market policies and individualised services, would contribute to increasing the participation of vulnerable groups. The labour market participation of women with young children is hampered by a persistent lack of affordable and quality childcare services, in particular for children up to three years old, and by the limited use of flexible working-time arrangements. Some measures have been taken in recent years to address this shortage but there is scope for more substantial efforts.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the Czech Republic's economic policy and published it in the 2016 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to the Czech Republic in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the Czech Republic but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

(14) In the light of this assessment, the Council has examined the Convergence Programme, and is of the opinion[5] that the Czech Republic is expected to comply with the Stability and Growth Pact.

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5 Under Article 5(2) of Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that the Czech Republic take action in 2016 and 2017 to:

1. Take measures to ensure the long-term sustainability of public finances, in light of future risks in the area of healthcare. Adopt legislation to strengthen the fiscal framework.

2. Reduce regulatory and administrative barriers to investment, in particular in transport and energy, and increase the availability of e-government services. Adopt the outstanding anti-corruption reforms and improve public procurement practices.

3. Strengthen governance in the R&D system and facilitate the links between academia and enterprises. Raise the attractiveness of the teaching profession and take measures to increase the inclusion of disadvantaged children, including Roma, in mainstream schools and pre-schools. Remove the obstacles to greater labour market participation by under-represented groups, in particular women.

Done at Brussels,

For the Council
The President